

GOVERNMENT OWNERSHIP

AN ADDRESS BY
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SENATOR LA FOLLETTE'S party proposes Government ownership and operation of railway and other public utilities. The Senator emphasizes this: "I am for Government ownership of railroads and every other public utility—every one." This means all railways, power, light, telephone and telegraph. The Republican Party stands for private ownership, with the prevention of abuse through Government control of service and rates or profits. Between them we must choose. Either we are to remain on the road of individual initiative, enterprise and opportunity, regulated by law, on which American institutions have so far progressed, or we are to turn down the road which leads through nationalization of utilities to the ultimate absorption into government of all industry and labor. What the Senator proposes is far more than a transitory experiment of government in business; it is a change in our social, economic and political principles that will react to revolutionize the Government itself.

The Proposition

In its immediate form this is a proposition that the Government should buy and run the railways, electrical and other utilities, valued by official commissions at about forty billions of dollars, with two million, seven hundred thousand employees, requiring two billions annually for bond interest, with an operating budget of ten billions per annum. To keep pace with natural growth these concerns must spend two billions of new capital yearly for extensions. This is a financial transaction and a venture into business of a magnitude never before undertaken by any man or by any government, democratic or otherwise—except in Russia. Surely before we embark on such a voyage we should look into the possibility of profit, examine the chart of the place where we are going, and consider the capacity of our vessel to carry the cargo.

People Must Decide

It is for the American people to decide. If they are to decide rightly they should have the reasons set before them in terms of sober eco-

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conomic and social thought, not in vituperation and appeals to hate. I accredit the sincerity of the advocates of these propositions, and I believe they have the manhood to credit ours. There is but one consideration—public interest. If I believed for one moment that this adventure would reduce rates, that it would produce better service, that it would decrease taxes, that it would benefit the employees, that it would maintain discovery, initiative, and advance in the development of these services, that it would not wreck our democracy, that it would strengthen the foundations of social and spiritual progress in America, or even that it would do a few of these things, I would unhesitatingly accept this proposal, stupendous as it is.

But I do not believe it. I am convinced, not only from the experience of our own country, but from the attempts made abroad, that Government operation is a step backward in every one of these propositions. It is the negation of progress. America has found the true road of advancement in these enterprises through sustained initiative and equality of opportunity to our people, with public control to prevent abuse. Our salvation consists in following this line with increasing intelligence and devotion.

Our Present System of Utility Control

Much of the present agitation is based upon conditions, not as they are today but as they were a generation ago. There were then great abuses that called for remedy. The Republican policy of public regulation and the historic moral upheaval to which Theodore Roosevelt contributed more than any one man, cured the worst of these evils and created the machinery of government to meet the rest. Theodore Roosevelt was the enemy of government ownership and the advocate of public regulation.

There is scarcely a single utility today that is not under public control through some governmental commission, local or national. These commissions today fix the rates, the issues of stock, the time tables, the car service, the profits. Our great national water powers are reserved to the Government through fifty-year leases, under public control. And our commissions are not alone preventing abuse: they are maintaining initiative, enterprise, and progress in our railway and

other utilities, as witness their enormous growth and constantly improving efficiency and service.

Popular Ownership

Regulation has, through stabilizing rates, reduced the cost of capital by increasing the security for the savings of our people. From this security and within our generation there has come a new tide, and that is toward popular ownership as distinguished from government ownership. These enterprises are no longer owned or controlled by a few. One of our great service corporations has nearly 400,000 stockholders, another over 200,000. The power companies have over 700,000; their bonds are directly and indirectly, through our mutual insurance companies and savings banks, in the hands of literally tens of millions of owners. A silent revolution is transferring ownership to the public.

Moreover, the new generation of administrators of these enterprises has firmly grasped its responsibility to the public. Indeed, there are deep and promising currents originating in our economic life driving toward a mutualization of public and private interests, employer and employee interest with promise of a new period in industrial development. There has been a genuine growth of business conscience and service, and this growth is far more precious than any amount of legislation. Of those occasional individuals who fail to manifest this sense of public responsibility I could speak with bitterness, for they are the real stimulators of socialism. Such men give the cause for the despair that Government ownership is the only relief from their actions. But we do not put the whole people in jail because of occasional murders.

Service Best in World

And from it all we have by and large evolved the best actual service to the people from utilities that there is in the world. It may not be perfect, but no one who has tried a European Government railway or telephone needs further proof of our superior service. Moreover, there is a diffusion of service and use among our people double and treble the proportions to the population of any other country. A larger proportion of our homes have electric lamps, a larger proportion have telephones. More of our people travel

y rail, and more miles. We ship more goods per person, and our workmen have more power at their elbow than any other workmen in the world. The wages in our utilities give the highest standard of living and comfort on the earth. If our utilities were dominated by the malign forces that some contend, these things would never have come about.

To whatever extent we have failed to control, whether it be through overcontrol or through inefficient control, it is a challenge to us to perfect our system. There have been mistakes and will be others. But I may say at once that if the American people have not the intelligence, if they have not the character, if they have not the political mechanism by which private competition can be maintained and yet abuse can be prevented, when they do not possess the intelligence, the character or the political mechanism by which they can undertake the gigantic operation of these enterprises.

Effect Upon Democracy

Neither our National nor our State Governments are planned or equipped for the task of government operation of utilities. Nobody ever tried it on our stupendous scale of a continent. Nevertheless there are Governments which, in their smaller scope, do operate in some fashion some of their utilities. Since it is always in worse fashion than ours, their example is no temptation to imitate, but it does illustrate that some governments, on some scale, in some fashion, can operate some of them. But none of them has ever attempted to operate all the utilities, nor does any one of them possess 15 per cent of our railway mileage, or 6 per cent of our power, or 15 per cent of our telephones.

I would also have you observe that these Governments all have much more concentrated power and responsibility than we have ever been willing to grant to our Government. The fathers purposely made our Government to a different model, for a different task. They divided power and responsibility, where business must concentrate them. They thought liberty and individual rights worth safeguarding even at some cost in efficiency. But this very fact necessarily leaves to private enterprise many things which other nations can, if they prefer, do through Govern-

ment—after a fashion. On the government side, the result has been one of which we are proud as other peoples are envious. On the business side, the accomplishment far surpasses anything they know. Through the one, we have liberty; through the other, enterprise and decisiveness.

Rewrite Constitution

Our form of government, which we have developed over 150 years, has assured us a measure of freedom and progress hitherto unparalleled in political history. The more we cherish it the less ready we should be to load it with a burden for which it was not built. To bear this load the Constitution would need to be rewritten in a score of places, until it was no longer our democracy. Above all, it would change the major thought and purpose of our Government into the making of money instead of devotion to the preservation of basic human liberties—a big enough job in these times.

The very first fundamental obstacle to government ownership that our form of Government presents is the relation of the States to the Federal Government. For in our plan we conceive that liberty requires a great measure of decentralization in authority. If these public utilities are to be operated by the Federal Government we at once deprive the States of their measure of authority and control over railway, power, light and communication companies—we make the service in these States dependent upon the will of Washington, thousands of miles away. Are we to give the States the power to regulate the business of the Federal Government as they now regulate these services? Or are we going to divide the railways and power and communications into 48 systems, each ending at the boundary of its own State? Whichever we do will crack the timbers of our Government.

Plans Unsound

If we pile these forty billions of business and two million, seven hundred thousand employees upon the Government, one of two things happens. Either the 530 members of Congress or the hundreds of members of State Legislatures become their real boards of directors, or, as has been claimed, these great businesses could be placed in the hands of non-partisan commi-

sions or government corporations, somehow free from politics and the dead hand of bureaucracy. Neither alternative will work. If we were to set up such agencies, so free from restraint of the Congress and legislatures as to accomplish these objects, we would have created gigantic despotisms controlling the well-being of our whole people—and incidentally controlling the very election of our officials.

As a matter of fact, we can do nothing of this kind if we are to maintain a democracy. We cannot have a democracy and deprive our elected representatives of their control of Government investment, their power to fix salaries and wages, their independence in the investigation of the conduct of public officials. The reservation of any or all of these powers renders any kind of a commission subservient to the members of the legislative bodies, no matter what the theory is. When they are subservient to elected officials politics will be their daily meed. Above all, the members of our legislative bodies represent districts, states, parties, and groups of opinion. Each member is expected by his constituents to look out for their local or group interests first. They have to be elected upon the results they obtain. Under Government ownership, partisanship, "log-rolling," and politics would be the inseparable accompaniments of administration. No great business can be efficiently administered by such a board or such a basis of choice. We shall convert business into politics, and surrender efficiency for spoils. If we distribute railway extensions as we distribute public buildings; if we locate electric power plants as we locate reclamation projects; if we divide up public industries generally as we share river and harbor improvements and army and navy stations—then, as surely as night follows the day, facilities will be wastefully provided for those districts or groups which are politically strong, and they will not be adequately provided for the districts or groups that are politically weak.

Taxpayer Must Pay

Also, under a régime of government ownership, these legislative bodies would have to deal with group pressures striving for favors in rates. The relative rates will affect the prosperity of every city and every section, every group and every industry. States, counties,

farmers, town dwellers, every group of manufacturers will press their representatives to secure an advantage, and legislators will inevitably honestly favor their constituents. Every experience to date indicates that the taxpayer will pay for the resulting concessions. Because the Government had not the courage to increase railway rates during the war the taxpayer made up a \$1,600,000,000 operation deficit. A neighboring Government yielded last year to the demand for lower rates on the Government railways; it is paying the deficit from taxes today.

If we embark on this vast venture we shall at once increase the total of national and local officeholders up to about six millions. The rightful interest of this group is in higher pay, constantly better conditions of service, and better standards of living. The rightful public interest will be to hold down rates and taxes. These interests will clash, and their clash must fight itself out, not on grounds of economic bargaining between labor and employer, but in the political arena. The voting strength of this mass of officeholders, their wives and dependents, will be over 25 per cent of the whole. It is the balance of political power between parties in every district. Either every member of the legislative bodies will be elected to do the bidding of this bureaucracy or will be elected by a public in rebellion against it.

No commission or any body of administrators can carry on these vast operations efficiently in this political maelstrom. We shall lose most of our democracy in the storm.

Higher Rates to the Public

Unless the Federal or local governments can give the public lower rates, there is no use undertaking the gamble.

If the Government is to reduce rates it must do so either by the saving of private profits or by reducing operating expenses or lumping them on the taxpayer. During the past four years the railways have on an average earned less than 4 per cent on the Interstate Commerce Commission valuation. Even if this value were reduced by 25 per cent they would have earned only 5 per cent. Our electrical utilities are regulated at earnings between 6 and 8 per cent upon their invested capital. The Government could not bor-

row the huge sums necessary at less than 5 per cent.

In a sale to the Government the constitutional requirements would, for various legal reasons, probably result in a much larger sum than the forty billion dollars of present valuations by commissions and others.

Moreover, the wasteful distribution of the hundred and fifty million of capital invested annually in the Post Office, Reclamation Service, Shipping Board, rivers and harbors and roads, would not be a patch on the waste in appropriations when our legislative bodies get a chance to handle two billions per annum of new capital outlay. For all these reasons I am convinced that interest charges alone to the Government would be larger than the present utility profits, and no economy lies there. Rather the way of the prodigal.

Huge Bureaucracy

Nor can the Government operate as economically as private enterprise. If we take over nearly three million new employees into public service we must put them under an air-tight civil service, to be hired by a separate commission and promoted by seniority. At once we have created a bureaucracy. Otherwise, we would have nearly three million jobs to be given out and a political debauchery unparalleled in all history. There are certain inherent qualities of bureaucracy in its deliberative action, the necessity to maintain joint responsibility, its enlargement of "red tape" designed to prevent error in judgment and conduct, all of which are perhaps an advantage in purely governing functions, but they become disaster when applied to the rapidity of movement vital to business and service. Numbers increase for every task. The alternative is political favoritism. And at the top where exceptional talent and genius must be had, neither seniority, nor competitive examination, nor politics will secure or find it. It is one thing to choose a postmaster but another to choose a railway president. These things are the actual and daily experiences of our public life; and if a hundred years of this experience is not proof that the efficiency of Government operation must always be below the efficiency of private enterprise, then the public is incapable of conviction.

We can get some direct experience from Gov-

ernment operated railways in foreign countries during the last ten years as to the results of these forces in this loading of employees. For instance, the number of employees of Italian railways has increased 50 per cent against an increase in traffic of 18 per cent. German employees increased 20 per cent against 5 per cent increase in traffic. Danish employees increased 48 per cent with 20 per cent increase in traffic. Swedish employees increased 10 per cent with a 25 per cent decrease in traffic. Norwegian employees increased 62 per cent with an increase in traffic of 37 per cent. Compare these figures with American railways, where the number of employees is about the same today as ten years ago against a 10 per cent increase in traffic. American railways are the only railways on earth showing increased efficiency in the last ten years. Incidentally ours are the most efficient railway men, employees and managers on earth. If we had increased our employees by such percentages it would cost \$600,000,000 per annum or an increase of 10 per cent in rates. For the rates today are, in the long view, based upon costs.

With all these forces in action, our cost of operation would increase. If we make rates to equal costs our rates will rise—not fall. Unless, of course, the taxpayer pays the deficit.

Poorer Service

Nor will the public secure better or more impartial service under Government ownership. The action of all Government officials must be limited by a vast amount of regulation and “red tape.” They have less independence of action than can be given to private employees. Therefore, government employees are not allowed to yield that spirit of accommodation that employees of private enterprise must furnish in order to maintain the repute of their competitive enterprise and its standing in the community.

A much larger issue lies in the inequality with which facilities will be provided over this continent 3000 miles wide. It is mighty important to have cars and kilowatts when they are needed. The economic life of somebody is stifled every time they are not available. Every drive of national economy will tend to limit the expansion for future need. Every district and group of the politically weak will have to do without some

measure of their need. Today there is remedy for failure in service; there is no remedy against the Government.

Increased Taxes

Another question worth examining is the direct and indirect tax burdens which will be imposed upon the public, assuming always that rates pay operating expenses and interest. The addition of \$40,000,000,000 to the national debt differs much from the debts of many thousands of private enterprises now comprised in these public utilities. The failure of a single private enterprise is a loss to its owners only, but with this entire investment transferred to the Government every citizen would pay every loss of capital, directly or indirectly, from taxes or rates, whether he liked it or not. When individuals enter upon a foolish project they pay for it, but if the Government does the same thing both the foolish and the wise must pay for it.

Today the combined utilities contribute about \$600,000,000 in taxes to the Federal and local governments. It is unlikely that in Government operation our Federal Government will pay taxes to the States or the States to counties out of utility rates. Thus the local governments would need to find other sources of revenue. If the customers of these utilities and the taxpayers were identical in their participation it would not matter, but it happens that utilities have a larger ratio of investment and taxes in the farming districts than they have in the big cities. It would damage the farmer of Massachusetts but 3 or 4 per cent to denude the State of utility taxes, but it would increase taxes 40 per cent in many agricultural counties in other States.

And, above all, if the history of other Governments operating utilities counts, the inefficiency in Government would not be taken up in rate increases, by which the actual user pays, but by lumping it onto the taxpayer.

Employees Worse Off

The next question to examine is whether the employees would benefit by being incorporated into the Government service. The first and foremost result of a demand for alteration of pay would be a dispute over the right to strike against

the Government and therefore against the people. In a vital service with the public undergoing privation they would be little likely to weigh right or wrong but to line up against the employees. Be this as it may, legislative bodies cannot delegate the right to settle widespread changes in wages or salaries or they will have delegated their control over expenditures, which is one basis of democracy. Thus under Government ownership employees must, in final analysis, bargain with legislative bodies, and bargaining will rest not upon economic need or economic strength, but on political potency. The present Federal employees, denying themselves the right to strike, have just now, after eight years, succeeded in getting some of their deserved increase in pay. The public utility employees have had them already for years. Their wages are today the highest real wage in the world. Some have assumed that the political strength of this great mass of employees will enable them to dictate the election of legislative members and thus secure their desires. This means the creation of another bloc, the arraying of class against class, perhaps the most dangerous tendency in our politics today. It substitutes internal pull and external politics for individual endeavor. It puts a damper on achievement, a premium upon wire-pulling. It penalizes whole-hearted devotion to work.

Wages Are Highest

Our wages are the highest real wages of any utility wages in the world. By real wages I mean actual buying power. Let us compare them with Government railway employees in Switzerland, Germany and Italy. And to compare them we must find a common denominator because foreign currencies may mean nothing. We may therefore reduce them to plain bread and butter. In other words, if we say that 5 per cent of butter and 95 per cent of flour form the basis of "bread and butter," then the weekly earnings in each country would buy at retail in those countries the following total of this useful compound:

	<i>Conductors,</i>	<i>Engineers,</i>	<i>Firemen,</i>	<i>Maintenance Men,</i>
	<i>Lbs.</i>	<i>Lbs.</i>	<i>Lbs.</i>	<i>Lbs.</i>
United States...	840	865	652	302
Switzerland	257	308	220	166
Germany	238	276	217	153
Italy	189	240	178	143

Our utility employees are the most efficient in the world. Our railroads move about 412 billion tons of freight one mile each year. To do this they employ a ratio of 5 men for each one million ton miles. The ratio is 23 in Germany, 4 in Italy, and 31 in Switzerland. It is this efficiency that makes for high wages. All these are things not alone for pride among our railway employees. They are a thing for pride of every American. They are the things that raise the standards of living to all of us.

Quotes Mr. Gompers

But there lies even a broader issue of the ultimate results to the freedom of labor. Upon I can do no better than to quote from Mr. Gompers in a speech at Montreal in June, 1920:

"I believe there is no man to whom I would take second position in my loyalty to the Republic of the United States, and yet I would not give it more power over the individual citizenship of our country. . . .

"It is a question of whether it shall be Government ownership or private ownership under control. . . . If I were in the minority of me in this convention, I would want to cast my vote so that the men of labor shall not willingly enslave themselves to Government authority their industrial effort for freedom. . . . Let the future tell the story of who is right or who is wrong, who has stood for freedom and who has been willing to submit their fate industrially to the Government."

Invention Will Decline

The essence of progress is that we shall have new mechanical invention, new ideas in administration, new developments in service. The proposal that we are examining here would destroy competition. By the same operation we destroy the competitive market for new invention and new ideas, for their value is determined by competitive bidding. A must sell his invention to the highest bidder. If B demonstrates unusual administrative ability he has an enlarged market for his services with competitors. The C railway experiments on a new improvement to attract customers. Neither Congress nor administrators can appraise the value of these things. The notion that men would give from a sense of public

service will never be realized until we reach the dubious millenium when desire for individual distinction and reward has passed away.

America has made the most marvelous advance in the history of man in the technology and administration of transportation and applied electricity. Can anyone believe that this invention, this courage, this application, this stimulation of genius that our nation has brought forth would ever have been developed under a Board of Directors of 530 members of Congress and hundreds of members of the State legislatures? Government utilities in other parts of the world get the technology from us. So far as I am aware, no single vital invention has ever come out of Government-owned utilities. If we are to assume that there will be no more need for other than routine operation, we may abandon this argument. But science is only at the threshold of its house of wonders. It may even solve methods of transportation that would cause the abandonment of railways to the taxpayer as it would have done to a nationalization of the stagecoach.

Our Own Experience

The classic domestic argument against all this is the postal service. There are, of course, conclusive reasons why that service must remain a public function. And it does carry the mail well, at a cost probably 25 per cent higher than private enterprise could do it. Its management and employees are the best that government could do; its faults are inherent in government ownership. But remember that the postal service pays no interest upon the vast sum of capital invested in its equipment and buildings. It pays no tax on these structures. And how is that capital investment in public buildings distributed? Notoriously on the reverse of business principles. How are the rates allocated to different classes of service? By the united pressure of organized groups, in all classes of mail for the lowest rate there is invariably a deficit in operating expenses piled upon the taxpayer. Postal employees are always in difficulties with their Board of Directors—that is Congress—as to pay adjustments. We are here proposing to amplify the shortcomings inherent in the Postal Service in the ratio of the Post Office budget of \$600,000,000 to an annual budget of \$10,000,000,000 in the utilities.

ties, not with 300,000 employees but with 2,750,000 and a business of infinitely greater technology.

Our national shipping is a daily sample of all the arguments I have given, and more. We paid three billions of the taxpayers' money for a fleet—some part of it was truly for war purposes—but we have written it down 90 per cent in 6 years to \$300,000,000; and if the accounts were based upon true costs with interest and depreciation we should find that we are losing over one hundred million dollars of the taxpayers' money a year in operating it. Yet private shipping is earning profits. Nor is this the fault of the Shipping Board; it is inherent in the system.

Cities Have Tried Plan

Our Government has some necessary power interests of its own. The building by the Government of great control dams, as on the Colorado, the St. Lawrence and elsewhere, whose primary functions are water supply, or control of flood, or irrigation, or navigation, and where power is a by-product, is a far different thing from the Government's going into power production and distribution as a business. Some of our municipalities are faced with these problems, and sometimes they also have a desire for business adventure, but the withdrawal of over 400 municipalities from efforts to run utilities are themselves indication that even under local concentration of authority the results are doubtful enough.

Other Experiments

I could, at great length, enter upon a discussion of the costs and failures of Government ownership and operation in our own and in other countries. I could display more facts and figures with regard to the Canadian, German, French, Italian, and Australian government railways. I could discuss the inability of the Italian Government to find any buyer for its railways when it tried to get from under their intolerable burden. I could name states where government ownership has been brought about by owners and creditors to get rid of bad investments. I could compare the real accounts of foreign government adventures into power with those of our private enterprise. I could enter upon the tendency to disguise real results by ac-

counting methods. I would show by example not alone the economic effect of government ownership but the effect upon government itself—and upon politics. I could even enter upon a comparison with the complete nationalization of industry in Russia. But as grievous as all these failures have been, there is still the fact that it is our Government and institutions and ours that we are dealing with and not those of other countries—and our institutions, designed more for liberty and less for business, would fare far worse.

Socialism Has No Place Here

We have constructed our Government upon the theme that its major purpose is to preserve human liberty amid the changing social and economic scene. If we divert it to the changing of money we shall have lost sadly for the future.

And paralleling and paralyzing every argument against government operation is one insistent note. That is the preservation of the vital initiative and enterprise of our people. This is the mainspring of efficiency and progress. Bureaucracy is the dead hand on initiative. Government can correct abuse without entry into business. If it cannot, then democracy shall have failed.

We are asked to abandon all that we have built as a land of opportunity by injecting into it an economic patent medicine from Europe. Socialism may have a place with some of the nations of Europe because of their failures to provide freedom, opportunity, and service. It has no place with us. We are building here a form of social organization of our own. We differed with European ideals 300 years. We have today in America the widest extended and most efficient utility services in the world—efficiency not alone of management but of the employees. We have developed an effective method of controlling abuses. We contribute more to invention and improvement than all other peoples combined. We are asked to embrace new social ideas, increase our cost of service, decrease our national efficiency, and thus destroy our wage levels, undermine our democracy, destroy the fundamentals upon which our nation has become great. This is not progressive, for it is not progress. It is destruction.